

HAZARD INDEPEDENT SCHOOL DISTRICT

REPORT OF AUDIT

Year Ended June 30, 2003

**JEFFREY HOLLIDAY, CERTIFIED PUBLIC ACCOUNTANT**

HAZARD INDEPENDENT SCHOOL DISTRICT

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**JEFFREY HOLLIDAY**  
CERTIFIED PUBLIC ACCOUNTANT

JEFFREY HOLLIDAY, CPA

POST OFFICE BOX 2140  
HAZARD, KENTUCKY 41702-2140  
TELEPHONE 606-487-8811  
FAX 606-487-1188

INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits  
Members of Hazard Independent Board of Education  
Hazard, Kentucky

We have audited the accompanying general-purpose financial statements of the Hazard Independent School District, as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Hazard Independent School District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the audit requirements prescribed by the State Committee for School District Audits in the Guide for Auditing Local School District's Fiscal Records. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general-purpose financial statements referred to above do not include the general fixed assets account group which should be included to conform to accounting principles generally accepted in the United States. The amounts that should be recorded as assets are not readily available.

In our opinion, except for the omission discussed in the preceding paragraph, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Hazard Independent School District as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued a report dated October 09, 2003, on our consideration of Hazard Independent District's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

**JEFFREY HOLLIDAY, CERTIFIED PUBLIC ACCOUNTANT**

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the Hazard Independent School District, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the general-purpose financial statements. The additional information presented as supplemental information is presented for the purposes of additional analysis and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Jeffrey Holliday  
Certified Public Accountant

Hazard, Kentucky

October 09, 2003

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**NOTE A - REPORTING ENTITY**

The Hazard Independent Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Hazard Independent School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental reporting entity as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Hazard Independent Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Hazard Independent School District Finance Corporation - The Hazard Independent Board of Education resolved to authorize the establishment of the Hazard Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Hazard Independent Board of Education also comprise the Corporation's Board of Directors.

**Fund Accounting**

The District maintains its accounting records in accordance with the principles of fund accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description for each class of funds along with the associated restrictions follows:

**I. Governmental Fund Types**

(A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use.

(B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report.

(C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Technology Fund accounts for the Kentucky Education Technology System (KETS) allocation and local district matching funds restricted for the purchase of technology consistent with the District's approved technology plan.
4. The Construction Fund includes Capital Projects Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

II. Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

III. Proprietary Funds (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). No amounts have been recorded for in-kind contribution of commodities from the USDA.

IV. Fiduciary Fund Types (includes agency and trust funds)

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

V. Account Group

To make a clear distinction between long-term liabilities related to specific funds and those of a general nature, the following account group is used:

General Long-term Obligations Account Group

This group of accounts is established to account for all long-term obligations of the District, including bonded debt and lease obligations, except those accounted for in Proprietary Funds and Trust Funds.

VI. Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied.



Basis of Accounting

The records of the Board are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in retained earnings.

Adjustments have been made to properly present the financial statements of the governmental fund types on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Fund is accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred, except that capital expenditures are recorded as expenses rather than as fixed assets which would be depreciated over their estimated useful lives.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Encumbrances Accounting

Encumbrances are not liabilities and therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2003.

Cash and Cash Equivalents

The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Funds, which record inventory using the accrual basis of accounting.

Total Columns

Total columns on the financial statements are indicated "Memorandum Only", as data in these columns do not present financial positions, results of operations, or changes in fund balance in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

HAZARD INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (continued)  
June 30, 2003

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**NOTE B - ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general-purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Encumbrances**

Encumbrances are reported as a reservation of the fund balance and are not reported as expenditures until incurred.

**NOTE C - CASH AND CASH EQUIVALENTS**

At year end, the carrying amount of the District's cash and cash equivalents was \$1,631,307. Of the total cash balance, \$200,000 was covered by Federal depository insurance, \$948,909 was covered by a collateral agreement and collateral held by the pledging banks trust departments in the District's name. \$482,398 was uncollateralized. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

General Fund, cash and cash equivalents at June 30, 2003 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
People's Bank & Trust	1,725,684	1,048,909
Community Trust Bank	<u>583,285</u>	<u>582,398</u>
<u>Totals</u>	<u>2,308,969</u>	<u>1,631,307</u>

**NOTE D - FIXED ASSETS**

**General Fund**

The general-purpose financial statements do not include the fixed asset account group, as the amounts that should be recorded are not readily available.

**Proprietary Fund Type – School Food Service Fund**

A summary of the Proprietary Fund fixed assets at June 30, 2003 follows:

Furniture and Equipment	71,272
Less Accumulated Depreciation	( <u>54,868</u> )
<u>Net Fixed Assets - Proprietary Fund</u>	<u>16,404</u>

HAZARD INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (continued)  
June 30, 2003

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NOTE E - LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the City of Hazard aggregating \$4,026,388.

The original amount of each issue, the issue date and interest rates are summarized as follows:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
Issue of 1994	98,144	5.60% - 5.70%
Issue of 1997	4,110,000	5.00% - 5.20%
Issue of 1999	321,000	3.85% - 4.95%
Issue of 2000	108,925	4.30% - 5.30%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Hazard Independent School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, at June 30, 2003 for debt service (principal and interest) are as follows:

Hazard Independent School District			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003-04	137,315	205,638	342,953
2004-05	149,283	198,456	347,739
2005-06	144,172	190,783	334,955
2006-07	150,637	183,384	334,021
2007-08	156,169	175,690	331,859
2008-09	165,640	167,564	333,204
2009-10	172,172	159,067	331,239
2010-11	172,000	150,001	322,001
2011-12	177,000	141,048	318,048
2012-13	188,000	131,669	319,669
2013-14	199,000	121,598	320,598
2014-15	210,000	110,874	320,874
2015-16	221,000	99,563	320,563
2016-17	232,000	87,666	319,666
2017-18	243,000	75,199	318,199
2018-19	254,000	62,113	316,113
2019-20	245,000	49,045	294,045
2020-21	255,000	36,045	291,045
2021-22	270,000	23,100	293,100
2022-23	285,000	7,838	292,838
<u>Totals</u>	<u>4,026,388</u>	<u>2,376,341</u>	<u>6,402,729</u>

HAZARD INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (continued)

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June 30, 2003

**NOTE F - ACCUMULATED UNPAID SICK LEAVE BENEFITS**

Upon retirement from the school system, a certified employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2003 this amount totaled \$78,891 for those certified employees with 27 or more years of experience. Of this amount \$78,891 is accounted for in the long-term debt group account.

**NOTE G - INTERFUND RECEIVABLES AND PAYABLES**

Interfund balances at June 30, 2003 consisted of the following:

No Interfund receivable was noted.

**NOTE H - COMMITMENTS UNDER NONCAPITALIZED LEASES**

As discussed in Note B, the District does not record fixed assets for its general fixed assets account group. Therefore, all lease agreements are treated as operating leases regardless of the specific contract terms.

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2003, as follows:

Year ending June 30:

2004	19,882
2005	19,882
2006	19,882
2007	19,882
Later	6,176
<u>Totals</u>	<u>85,704</u>

**NOTE I - PENSION PLANS**

The Hazard City Schools contributes to the Teachers' Retirement System of Kentucky (KTRS), a public cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 900 of the Kentucky Revised Statutes (KRS). KTRS issues a public financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teacher's Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires members of KTRS to occupy a position requiring a four (4) year college degree or certification by KY Department of Education.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement system (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholdings of 5.00% and a district contribution of 6.41% of the employee's total compensation subject to contribution.

The District's total payroll for the year was \$4,267,765. The payroll for employees covered under KTRS was \$3,706,218 and for CERS was \$561,547.

**JEFFREY HOLLIDAY, CERTIFIED PUBLIC ACCOUNTANT**

HAZARD INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (continued)  
June 30, 2003

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NOTE I - RETIREMENT PLANS (continued)

The contribution requirement for CERS for the year ended June 30, 2003 was \$63,899 which consisted of \$35,822 from the District and \$28,077 from the employees. For the year ending June 30, 2003, the Commonwealth contributed \$431,534 to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2003 were \$54,188 which represents those employees covered by federal programs.

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS as of <u>June 30, 2001</u> (in millions of dollars)	CERS as of <u>June 30, 1996</u> (in millions of dollars)
Assets available for benefits (at cost)	13,403.7	2,880.0
Pension benefit obligation	<u>14,642.1</u>	<u>2,778.3</u>
Assets in excess of benefit obligations/ (Unfunded benefit obligations)	<u>( 1,238.4)</u>	<u>101.7</u>

Historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2001 comprehensive annual financial reports.

As the Board is only one of several employers participating in the plan, it is not practical to determine the board's portion of the unfunded past service cost or the vested benefits of the board's portion of the plan assets.

HAZARD INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (continued)  
June 30, 2003

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**NOTE J - CONTINGENCIES**

**A:** The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

**B:** In January 2003 the Hazard Independent Board of Education passed a resolution allowing a boosters club to apply for a charitable gaming license in the name of Hazard High School (licenses #1579). The resolution gave the boosters club full control over the management of the charitable gaming activities under the supervision of the Hazard High School principal. This resolution is for a one year period ending March 2004. For the two months ending June 30, 2003 the charitable gaming activity generated the following:

Gross Receipts:	111,391.69
Payouts of Prizes	<u>104,207.00</u>
Adjusted Receipts	7,184.69
Operating Expenses	<u>5,902.61</u>
Net Income from Charitable Gaming	<u>1,282.08</u>

Auditing procedures were applied to determine that no laws were being violated in regards to the charitable gaming activity. No amounts have been disclosed in the financial statements because the Board is the license holder and fiscal agent for the gaming activity and the net asset affect on the financial statements would be immaterial.

**NOTE K - INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include worker's compensation insurance.

HAZARD INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (continued)  
June 30, 2003

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**NOTE L - RISK MANAGEMENT**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for worker's compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Worker's Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims, experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reasons by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE M - DEFICIT OPERATING/FUND BALANCES**

There are no funds of the District that currently have a deficit fund balance/retained earnings. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures/expenses resulting in a corresponding reduction of fund balance/retained earnings:

FSPK Fund	39,529
Construction Fund	68,801
Hazard High School	18,361

**NOTE N - COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

**NOTE O - TRANSFER OF FUNDS**

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	1	2	Matching	6,456
Operating	2	360	Close Projects	140,604
Operating	51	1	Indirect Cost	16,407
Operating	2	1	Project Over Exp.	1,255

HAZARD INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (continued)  
June 30, 2003

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NOTE P - ANNUAL FINANCIAL REPORT DIFFERENCES

The following is a reconciliation of the June 30, 2003, fund balances/retained earnings reported by the Board to the Kentucky Department of Education with that shown in the accompanying financial statements:

	<u>General Fund</u>	<u>Capital Projects</u>	<u>School Food Service Funds</u>
Fund Balance as Reported to the Department of Education	624,825	671,083	124,783
1) Amount due from other funds	-	-	-
2) Amount recorded in error	-	-	-
3) Additional Accounts Payable	539	-	( 8,775)
4) Additional Accounts Receivable	-	-	11,976
5) Record Net Fixed Assets	-	-	( 6,781)
6) Record SFS Ending Inventory	-	-	-
7) Deferred Revenue	-	-	-
Fund Balance as Reported in Accompanying General Purpose Financial Statements	<u>625,364</u>	<u>671,083</u>	<u>121,203</u>



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SCHEDULE OF BOARD MEMBERS AND OTHER OFFICIALSYear Ended June 30, 2003

<u>Name</u>	<u>Term Expires (d)</u>
Elmer Gabbard, Chairman	December 31, 2004
Dr. Vernon Cooper	June 30, 2004
Larry Riddle	December 31, 2006
John Delpont	December 31, 2004
Eli Boggs	December 31, 2006
<u>Other Officials:</u>	<u>Term Expires.</u>
James Francis, Superintendent	June 30, 2003
Regina Cornett, Treasurer	June 30, 2003

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2003

NOTE – A BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hazard Independent School District and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE – B FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at fair market value of commodities received and disbursed. At June 30, 2003 inventory of food commodities totaled \$6,192.

HAZARD INDEPENDENT SCHOOL DISTRICT

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2003

Department of Agriculture

97-01 Condition: Absences of appropriate segregation of duties consistent with appropriate control objectives because of small staff.

Management Response: The absence of appropriate segregation of duties is a common problem for many small districts. Federal Assistance Programs are monitored by grant personnel to help separate duties. Due to fiscal constraints the Board is unable to hire the number of personnel needed to obtain an adequate level of segregation.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2003

- SUMMARY OF AUDIT RESULTS -

1. We have issued a qualified opinion on the financial statements.
2. No reportable conditions were disclosed in our audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No reportable conditions were disclosed in our audit in internal control over major programs.
5. We have issued an unqualified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under Section .510 (a) of A-133.
7. Hazard Independent County School District had the following major programs:
  - U.S. Department of Education  
Passes through State Department of Education  
Title I
  - U.S. Department of Agriculture  
Passes through State Department of Agriculture  
School Food Service Cluster
8. Threshold for determination of major program. \$300,000
9. The auditee did not qualify as a low risk auditee.

- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -

None Noted

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS -

None Noted

**JEFFREY HOLLIDAY**  
CERTIFIED PUBLIC ACCOUNTANT

JEFFREY HOLLIDAY, CPA

POST OFFICE BOX 2140  
HAZARD, KENTUCKY 41702-2140  
TELEPHONE 606-487-8811  
FAX 606-487-1188

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

State Committee for School District Audits  
Members of Hazard Independent Board of Education  
Hazard, Kentucky

We have audited the financial statements of Hazard Independent School District as of and for the year ended June 30, 2003, and issued our report thereon dated October 09, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements prescribed by the State Committee for School District audits in the Guide for Auditing Local School District's Fiscal Records.

Compliance

As part of obtaining reasonable assurance about whether Hazard Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in section 3 (9) (A) - (X) of the Procedures for Auditing Local School District's Fiscal Records that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hazard Independent Board of Education internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assistance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted other matters involving the Board of Education in a separate letter dated October 09, 2003.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties

*Jeffrey Holliday, CPA*  
JEFFREY HOLLIDAY  
Certified Public Accountants

Hazard, Kentucky

October 09, 2003

**JEFFREY HOLLIDAY**  
CERTIFIED PUBLIC ACCOUNTANTS

JEFFREY HOLLIDAY, CPA

POST OFFICE BOX 2140  
HAZARD, KENTUCKY 41702-2140  
TELEPHONE 606-487-8811  
FAX 606-487-1188

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133

State Committee for School District Audits  
Members of Hazard Independent Board of Education  
Hazard, Kentucky

Compliance

We have audited the compliance of the Hazard Independent County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Hazard Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Hazard Independent School District's management. Our responsibility is to express an opinion on Hazard Independent School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States: the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the audit requirements prescribed by the State Committee for School and OMB Circular A-133, Audits of states, local governments, and non-profit organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hazard Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Hazard Independent School District's compliance with those requirements.

In our opinion, the Hazard Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Hazard Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Hazard Independent School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purposes of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the board members, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Jeffrey Holliday, CPA*  
JEFFREY HOLLIDAY  
Certified Public Accountants

Hazard, Kentucky

October 09, 2003

**HAZARD INDEPENDENT SCHOOL DISTRICT**

**MANAGEMENT LETTER POINTS**

**JUNE 30, 2003**

**JEFFREY HOLLIDAY**  
CERTIFIED PUBLIC ACCOUNTANTS

JEFFREY HOLLIDAY, CPA

POST OFFICE BOX 2140  
HAZARD, KENTUCKY 41702-2140  
TELEPHONE 606-487-8811  
FAX 606-487-1188

October 09, 2003

Hazard Independent Board of Education  
Hazard, Kentucky

In planning and performing our audit of the financial statements of the Hazard Independent School District for the year ended June 30, 2003, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operation efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. A separate report dated October 09, 2003, contains our report on reportable conditions and material weaknesses in the District's internal control structure. This letter does not affect our report dated October 09, 2003, on the financial statements of the Hazard Independent School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

*Jeffrey Holliday, CPA*

JEFFREY HOLLIDAY  
Certified Public Accountants  
Hazard, Kentucky

MANAGEMENT LETTER POINTS

Year Ended June 30, 2003

The following are responses to previous year management letter points:

**Activity Funds**

1. Sales tax should not be paid on items purchased.

Walkertown Primary School

- Sales tax will not be paid on future purchases.

Follow Up: No instances of sales tax were noted at Walkertown Primary School

2. Booster clubs and PTO's should submit Annual reports and list of officers to the school principal.

Walkertown Primary School

Roy G. Eversole

Hazard High School

- All organizations will be made aware of the reporting requirement

Follow Up: Not all Booster Clubs had submitted annual reports of activities at all schools

3. Budgets should be prepared for all activity accounts.

Walkertown Primary

Roy G. Eversole

- All sponsors will be asked to submit a budget for their activity

Follow Up: Budgets were available for all activities.

4. Cafeteria charges should be collected by the cafeteria and not paid by the activity fund.

Walkertown Primary

Roy G. Eversole

Hazard High School

- Lunch room personnel will start to collect charges and implement policies on charging

Follow Up: Instances were noted at Roy G. Ever sole and Walkertown Primary where activity funds were used to pay for student lunches and the school is responsible for collecting from the student. This should stop immediately the lunchroom is responsible for collection of all amounts relating to lunch and breakfast meals served.

**Central Office:**

1. The annual financial report should be published in the required time after the close of the fiscal year

- The annual report will be published in a timely manner. Personnel were unaware that it had not been published. The report was published October 9, 2002

Follow Up: The annual report was published in a timely manner following the close of the fiscal year.

**JEFFREY HOLLIDAY, CERTIFIED PUBLIC ACCOUNTANT**

MANAGEMENT LETTER POINTS

Year Ended June 30, 2003

Follow up on previous year management letter points continued.

2. Sheriff settlements should be obtained and kept on file for every year.

- Copies of the annual settlements will be request from the sheriff.

Follow Up: Sheriff's settlement has not been received from the sheriff.

3. KETS approvals should be filed with all technology expenditures to indicate proper approval.

- Coordinators stated that they were informed that the approval was no longer required.

Follow Up: Proper approval for KETS expenditures are not filed with technology expenditures.

4. Personnel files should be maintained so that salaries actually paid can be compared to contract amounts.

- Employee files will be updated to reflect all current and needed information

Follow Up: New personnel files had been updated and were more informative.

HAZARD INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER POINTS  
Year Ended June 30, 2003

50.

The following are items we noted in our current year audit that were not previously noted in prior years:

**1. Activity Fund**

Finding: Amounts received by cash and check should be noted on the receipt issued by the treasurer.

School: Walkertown Primary School

Condition: Amounts receipted did not indicate if the amount was cash or check.

Response: Amounts will be noted and listed separately on all bank deposits.

Finding: Annual report should be signed by the principal and treasurer.

School: Hazard High School  
Walkertown Primary School

Condition: Monthly and/or annual reports were not signed or signed copies were not presented to the auditor.

Response: Annual and monthly reports will be signed and a signed copy kept on file.

Finding: Budgets should be prepared for all activity accounts.

School: Hazard High School

Condition: Activity funds did not submit budgets to the treasurer

Response: Activity sponsors will be asked to submit a budget at the start of the school year.

Finding: No disbursements should be made without proper documentation, including a purchase order or request and a vendor invoice or standard invoice.

School: Hazard High School

Condition: Disbursements were made to the following without a vendor invoice or standard invoice.

CK# 806 Home Lumber Company, Inc	\$ 2000.00
Ck # 778 John Guyer	330.00
Ck# 802 General Shale	1200.00
Ck# 809 Mt Fence Company	2000.00

Response: All expenditures will be made only from a proper vendor invoice.

**JEFFREY HOLLIDAY, CERTIFIED PUBLIC ACCOUNTANT**

HAZARD INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER POINTS  
Year Ended June 30, 2003

51.

The following are items we noted in our current year audit that were not previously noted in prior years:

Finding: Activity Funds should not be used to renovate school facilities.

School: Hazard High School

Condition: Activity funds were used for the renovation of the Hazard High School softball field. Amounts documented totaled \$10,115.38, with Board reimbursement totaling approximately \$5,200.00

Response: The Board reimbursed the activity fund for the expenditures and the remainder was donated by Dr. Vernon Cooper.

Additional Comments: Activity money should not be used under any circumstance for the maintenance or renovation of school facilities.

Finding: Teacher and sponsors should use multiple receipt forms to document all money collected and submitted to the treasurer.

School: Hazard High School

Condition: Multiple receipt forms are not being used by teachers/sponsors collecting fees from students.

Response: All Teachers/Sponsors will be asked to submit a multiple receipt form for all fee's collected.

**2. Central Office**

Finding: The lease entered into by the Hazard High School for the purpose of conducting charitable gaming was not signed or approved by the Board.

Condition: The lease for the facility for the purpose of charitable gaming was signed by members of the Hazard Band Boosters. Hazard High School is listed as Lessee on the lease.

No record was found that gave approval for execution of such lease or board adoption of the lease.

Response: The Board adopted the resolution granting authority to operate charitable gaming for the benefit of the Hazard Band Boosters, under supervision of the Hazard High School principal. The Board is not familiar with any of the activities relating to the charitable gaming. It was the Board's intention to allow the Band to participate in charitable gaming and provide cooperation in all reasonable manners.

**JEFFREY HOLLIDAY, CERTIFIED PUBLIC ACCOUNTANT**